

Message Text

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INFO OCT-01 EUR-12 EA-06 ISO-00 AID-05 CIAE-00 COME-00

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CEA-01 L-02 H-01 /080 W

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R 110823Z FEB 75

FM AMEMBASSY BERN

TO SECSTATE WASHDC 227

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TOKYO

AMEMBASSY BONN

AMCONSUL HONG KONG

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SUBJECT: INTERNATIONAL BANK LENDING

REF: A) STATE 22709; B) STATE 27493; C) BERN 488

1. SUMMARY. SWISS BANKS TAKE ACCOUNT OF VARIETY FACTORS
IN DECIDING ON INTERNATIONAL LENDING, PRIMARILY EUROLOANS,
BUT GENERALLY TAKE FAIRLY CONSERVATIVE AND CAUTIOUS APPROACH
IN JUDGING CREDITWORTHINESS OF BOTH BORROWERS AND THEIR
COUNTRIES. BANKS HAVE ALREADY EXPERIENCED SHARP INCREASE
IN LOAN DEMAND SINCE BEGINNING OF 1975 WHICH THEY ANTICIPATE
WILL CONTINUE FOR TIME BEING. BANKS WOULD NOT BE SURPRISED
SEE RESCHEDULING REQUEST OR EVEN DEFAULT IN EUROMARKET IN
1975 OR 1976 BUT SEEM TO FEEL THAT BECAUSE OF THEIR
PAST CAUTION SUCH DEVELOPMENTS WOULD NOT GREATLY AFFECT
THEM DIRECTLY. THEY WELCOME GREATER INTER-GOVERNMENTAL ROLE IN
PROVIDING FINANCIAL BACKSTOPPING FOR DEFICIT COUNTRIES

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SINCE THEY FEEL BANKS AND OTHER MARKET MECHANISMS INADEQUATE

FOR THIS TASK. END SUMMARY.

2. E/C COUNSELOR MET INFORMALLY IN ZURICH FEB 6 WITH OFFICERS OF THREE MAJOR SWISS BANKS, SWISS NATIONAL BANK (SNB) REP, AND MANAGER MORGAN GUARANTY BRANCH FOR GENERAL DISCUSSION INTERNATIONAL LENDING PRACTICES AND PROBLEMS.

3. BANK LENDING TO DOMESTIC BORROWERS HAS FOR PAST TWO YEARS BEEN LIMITED BY CREDIT RESTRAINTS IMPOSED ON EACH BANK BASED ON PERCENTAGE INCREASE IN LENDING OVER BASE PERIOD. (FOR 1975 BANK LOAN PORTFOLIOS MAY INCREASE BY 7 PERCENT-- SEE BERN A-3.) LENDING OF SWISS FRANCS TO FOREIGN BORROWERS IS ALSO RESTRICTED BY QUARTERLY LIMITS ON PRIVATE PLACEMENT OF MEDIUM TERM NOTES; GLOBAL LIMITS ON FOREIGN SF BOND ISSUES (AND RECENTLY SUGGESTION BY SNB TO MAJOR BANKS THAT ACCESS BE LIMITED TO FOREIGN NON-PUBLIC BORROWERS); AND RESTRICTIONS ON DIRECT BANK LENDING ABROAD. SWISS BANKS, HOWEVER, DO PARTICIPATE ACTIVELY IN LENDING DENOMINATED IN OTHER CURRENCIES THROUGH THEIR OFF-SHORE AFFILIATES AND ALSO LOAN SOME EUROFRANCS TO BORROWERS HAVING NEED OF SWISS CURRENCY FOR PURCHASES GOODS FROM SWITZERLAND, ETC. CONTINUAL APPRECIATION OF SWISS FRANC OVER LAST FEW YEARS HAS, OF COURSE, DAMPENED DEMAND FOR BORROWINGS IN SWISS FRANCS.

4. THUS, QUESTIONS POSED REFTEL A PRIMARILY RELATE TO ROLE OF SWISS BANKS IN EURO CURRENCY MARKS. UNION BANK, SWITZERLAND'S LARGEST, HAS INTERNAL POLICY NOT ALLOW FOREIGN LENDING EXCEED APPROXIMATELY HALF OF ITS OUTSTANDING LOAN PORTFOLIO. (WE WERE TOLD FIGURE IS NOW ABOUT 52 PERCENT.) FINAL 1974 FIGURES NOT YET AVAILABLE BUT DECEMBER 31, 1973 AND JUNE 30, 1974 REPORTS SHOW BALANCE SHEET TOTAL FOR UNION BANK (UBS) AT ABOUT SF 40 BILLION; TOTALS FOR SWISS BANK CORP AND SWISS CREDIT BANK ARE ABOUT SF 37 AND 32 BILLION RESPECTIVELY. WE BELIEVE THEIR FOREIGN LENDING IS IN ROUGHLY SAME RANGE PROPORTIONATELY AS UBS. MORGAN GUARANTY/ZURICH ON OTHER HAND HAS ONLY 15 PERCENT OF LOAN PORTFOLIO WITH RESIDENT BORROWERS, ABOUT 35 PERCENT WITH NON-RESIDENTS IN SWISS FRANCS, AND REMAINDER IN OTHER CURRENCIES.

5. ALL THREE SWISS BANKS STRESS THAT ALL KEY DECISIONS ON LIMITED OFFICIAL USE

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EUROLENDING AND UNDERWRITING ARE MADE AT HEADQUARTERS AND LONDON AFFILIATES ESSENTIALLY PERFORM ADMINISTRATIVE/LIAISON BUT NOT DECISION FUNCTIONS. ALL THREE BANKS PARTICIPATE ACTIVELY IN EUROMARKET BUT ORDINARILY DO NOT TAKE LEADERSHIP ROLE IN ORGANIZING SYNDICATES ALTHOUGH THEY OFTEN ACT AS CO-MANAGER OR PARTICIPANT. THEY CLAIM THIS REDUCES THEIR RESPONSIBILITY AND ASSURES THAT RISK SPREAD AMONG OTHER PARTICIPATING EUROBANKS. ALL THREE BANKS CLEARLY HAVE COUNTRY LIST FROM

WHOM BORROWERS ARE APPRAISED WITH PARTICULAR CARE. WE
ARE NOT PRIVY TO ANY SUCH LISTS AND THEY CHANGE FROM TIME
TO TIME DEPENDING ON BALANCE OF PAYMENTS AND OTHER ECONOMIC
INDICATORS BUT PROBABLY OF EVEN GREATER IMPORTANCE ARE SUCH
FACTORS AS POLITICAL/SOCIAL CONDITIONS AND ATTITUDE OF
CLIENT INVESTORS OF SWISS BANKS TOWARD ACCEPTING PAPER FROM
BORROWERS FROM CERTAIN COUNTRIES.

6. FROM CONVERSATIONS WE GATHER THAT IN EUROPE ITALY NOW
AT BOTTOM OF LIST WITH SWISS BANKS SHOWING GREATEST RELUCTANCE
ENGAGE IN NEW LENDING AND ESPECIALLY ROLL-OVERS TO ITALIAN
BORROWERS. UK ONLY SLIGHTLY HIGHER WHILE FOR PRIMARILY
POLITICAL REASONS PORTUGAL, SPAIN, AND GREECE NOT VERY HIGH
AT MOMENT. WHILE USSR GENERALLY CONSIDERED BY BANKS AS GOOD
CREDIT RISK, RELUCTANCE OF BANK CLIENTS ACCEPT USSR PAPER
VIRTUALLY PRECLUDES SWISS BANK LENDING TO SOVIET BORROWERS AT
THIS TIME. (ONE SOURCE COMMENTED THAT SUBSTANTIAL NEW
EXIMBANK AND MAJOR US BANK LENDING TO USSR WOULD BE NEEDED
PARTIALLY TO CHANGE THIS SITUATION.) SOMETIMES PERSONALITY
AND INTANGIBLE FACTORS ARE RELEVANT. FOR EXAMPLE, SWISS BANKS
TRUST LEADERSHIP OF HUNGARIAN CENTRAL BANK WHICH MAKES
HUNGARIAN LENDING POSSIBLE TO LIMITED EXTENT. US BORROWERS
ARE STILL HIGHLY REGARDED BECAUSE OF BASIC CONFIDENCE IN
US ECONOMY.
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7. ALL BANKS HAVE FULL INFO AT DISPOSAL RE COUNTRY/CORPORATE CONDITIONS BUT AS NOTED ABOVE OFTEN RELY ON OVERALL IMPRESSIONS, EXPERIENCE, AND ATTITUDE OF THEIR CLIENTS. THEY GENERALLY WILL LEND EITHER DIRECTLY OR IN SYNDICATES ONLY TO TOP-NAME CORPORATE BORROWERS BUT TREND OF INDUSTRY WILL ALSO AFFECT THEIR DECISION. THUS, FEW YEARS AGO THEY FOUND AMERICAN MOTORS A SOUND RISK BECAUSE OF FAVORABLE PROSPECTS FOR SMALL-SIZE AUTOS IN US MARKET DESPITE SOMEWHAT LESS SATISFACTORY FINANCIAL SITUATION OF COMPANY AT THAT TIME.

8. SWISS BANKS CLAIM BE RELUCTANT ENGAGE IN ANY ROLLOVER OR DEBT RESCHEDULING OPERATIONS UNLESS GOVERNMENT OR OTHER GUARANTEE INVOLVED. BANKS WERE AWARE OF SURVEY BY EUROSTUDY AS REPORTED IN FEBRUARY 5 INTERNATIONAL HERALD TRIBUNE INDICATING EUROCURRENCY RESCHEDULING AND/OR DEFAULT LIKELY IN 1975, AND DID NOT SEEM DISAGREE WITH CONCLUSIONS OF ARTICLE.

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9. ONE BANK NOTED THAT IN FIRST FIVE WEEKS 1975 IT HAD RECEIVED SOME 35 REQUESTS PARTICIPATE IN EUROLOANS INDICATING ACTIVITY, PRIMARILY BECAUSE OF INTEREST RATE DEVELOPMENTS, APPROACHING RAPID PACE OF FIRST HALF 1974 BEFORE HERSTATT FAILURE AND OTHER EVENTS PROVOKED MUCH MORE CAUTIOUS BANK ACTIVITY.

10. IN ADDITION CREDIT CONTROLS FOR MONETARY POLICY REASONS AND CONTROLS ON CAPITAL IN AND OUTFLOWS, SWISS BANKING LAW SETS CAPITAL-ASSET RATIO OF 10 PERCENT PLUS AN ADDITIONAL 2 PERCENT IF FOREIGN ASSETS COVER MORE THAN 50 PERCENT OF TOTAL LIABILITIES. OUR SOURCES INDICATE THAT FOR MAJOR BANKS CAPITAL ADEQUACY IS NOT MAJOR PROBLEM AND THAT BANKS GENERALLY WELL ABOVE LEGAL MINIMUM. BANKS HAVE RESORTED TO BOND AND MEDIUM-TERM NOTE MARKET TO INCREASE THEIR CAPITAL AS NECESSARY AND COULD AGAIN DO SO. BUT SINCE 1973 BALANCE SHEETS OF MAJOR SWISS BANKS HAVE SHOWN LITTLE OR NO INCREASE, A REACTION PARTLY TO SHARP GROWTH TREND THROUGH 1960'S AND EARLY 1970'S. THUS, BANKS GENERALLY HAVE ENTERED CONSOLIDATION PHASE AND HAVE NOT FOUND IT NECESSARY PUSH OUT LOANS ABROAD WHILE STILL BEING READY PARTICIPATE IN FOREIGN LENDING ACTIVITY TO TOP-RATED BORROWERS.
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